

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6296

BILL NUMBER: SB 366

NOTE PREPARED: Dec 10, 2009

BILL AMENDED:

SUBJECT: Limit on Assessment Increases.

FIRST AUTHOR: Sen. Stutzman

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: This bill limits the annual increase in the gross assessed value of real property to 10% unless the increase results from a factor that would have increased the assessed value even if neither an annual assessment adjustment nor a general assessment applied.

Effective Date: January 1, 2010 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, the assessed value of real property is adjusted each year to reflect market changes. Annual adjustments for most real property are based on local sales. The adjustments for some properties are based on income capitalization. Each year, the base rate for agricultural land is set by the Department of Local Government Finance (DLGF), based on a six-year rolling average of the capitalization of net cash rents and net operating income for farmland. Beginning with taxes payable in 2011, this bill would limit the annual assessed value adjustment to 10% for any property.

Current estimates for average residential trending rates in a county range from -4.3% to +5.4% for taxes payable in 2011, from +0.32% to +2.57% for taxes payable in 2012, and from +0.82% to +6.06% for taxes payable in 2013. There are no counties with an estimated average residential trending rate above 10%. Current estimated trending rates of other property types show no change for these years.

Since the average increase for homes and other property (except farmland) is estimated to be significantly below the 10% limit in this proposal, for property other than farmland, the bill would most likely only affect specific situations where a property or a group of properties experience a rapid increase in value due to external factors. It could also affect properties in fast-growing counties or all properties in a year where the overall market shows great gains.

The base value per acre of farmland is \$1,250 for taxes payable in 2010, and is currently estimated at \$1,400 for 2011 (12.0% increase), \$1,690 for 2012 (20.7% increase), and \$1,650 for 2013 (2.4% reduction). Under this proposal, the base rate would be \$1,375 for 2011, \$1,513 for 2012, and \$1,650 for 2013. So, by 2013, the base rate under the limit would catch up to the formula base rate.

For taxes payable in 2011 and 2012, the caps on AV increases in this proposal would result in a smaller tax base than under current law. This would result in a higher tax rate and a shift of part of the property tax burden from some taxpayers to others, along with an increase in circuit breaker credits.

The statewide average tax rate per \$100 AV would increase by an estimated \$0.0027 in 2011 and \$0.0182 in 2012. Statewide, net property taxes would be lower under this bill than under current law for farmland and would be higher for all other property types in 2011 and 2012. In 2013, there would be no change from current law. The higher tax rates in 2011 and 2012 would also cause TIF proceeds to increase. Circuit breaker credits would increase by an estimated \$804,000 in 2011 and \$4.9 M in 2012. The table below contains estimates of these changes.

Estimated Net Property Tax and Circuit Breaker Changes				
Net Tax by Property Type	2011		2012	
Homesteads	+ 1.3 M	+ 0.1%	+ 8.7 M	+ 0.5%
Farmland	- 4.0 M	- 1.4%	- 26.5 M	- 8.3%
Other Residential	+0.3 M	+ 0.0%	+ 2.2 M	+ 0.3%
Commercial Apartments	+ 0.02 M	+ 0.0%	+ 0.2 M	+ 0.1%
Ag_Business (Except Farmland)	+ 0.3 M	+ 0.3 %	+ 2.0 M	+ 2.0%
Other Real Property	+ 0.7 M	+ 0.0%	+ 4.8 M	+ 0.3%
Personal Property	+ 0.7 M	+ 0.1%	+ 4.7 M	+ 0.5%
TIF Proceeds	+0.1 M	+ 0.0%	+ 0.9 M	+ 0.2%
Circuit Breaker Credits	+ 0.8 M	+ 0.2%	+ 4.9 M	+ 1.1%

While this analysis relies on estimates of county average changes in residential AV, different areas will have different impacts, based on neighborhood market conditions.

State Agencies Affected:

Local Agencies Affected: County assessors; Local taxing units impacted by circuit breaker credits.

Information Sources: *Home Price, Existing Average* historic series and forecast series, Global Insight; *Farmland Assessment For Property Taxes*, Larry DeBoer, Purdue University, http://www.agecon.purdue.edu/crd/localgov/Topics/Essays/Prop_Tax_FarmLand_Asmt.htm.

Fiscal Analyst: Bob Sigalow, 317-232-9859.